FINANCIAL POSITION OF SAINT MARY’S COLLEGE

Presented to Campus Community
October 14, 2008
AGENDA

- Summary Financial Results as of June 30, 2008
- Other Financial Highlights from FY 2007-2008
- Concluding Summary for Fiscal Year Ended June 30, 2008
- FY 2008-2009 Operating Budget Update
- Impact of Credit Crisis
- Budget Adjustments
- Discussion
SUMMARY FINANCIAL RESULTS
JUNE 30, 2008

Macroeconomic factors impacting operating results:

- Decline in market value of most investment asset classes.
- Tightening credit markets.
- Collapse of market for auction rate securities.
SUMMARY FINANCIAL RESULTS
JUNE 30, 2008

- $18.5 million or 8.2% decrease in Net Assets (Equity) to $205.4 million.
- $14.5 million or 8.8% decrease in endowment assets to $149.9 million.
- Unrestricted operating margin of $0.4 million or 0.4% of unrestricted operating revenues.
- Unable to fully fund depreciation expense ($3.2 million of $4.5 million funded).
ANNUAL FINANCIAL REPORT
JUNE 30, 2008

- Report from Vice President for Finance
- Independent Auditors’ Report
- Financial Statements
- Notes to Financial Statements
- Management Letter
REPORT FROM
VICE PRESIDENT FOR FINANCE

- Provides explanation of significant changes in financial statements and related notes.

- Provides other financial highlights and outlook.
INDEPENDENT AUDITORS’ REPORT

- Expresses opinion on College’s financial statements based on audit.

- Opinion states financial statements “present fairly” the College’s financial position.

- Opinion is “clean” or “unqualified”.

- Assets total $307.8 million as of June 30, 2008.

- Assets comprised of Investments (59%), Property, Plant, and Equipment (35%), Receivables (3%), Cash and Equivalents (2%), and Other (1%).
BALANCE SHEET: ASSETS
Fiscal Year Ended June 30, 2008
$307,884,550

- Cash and Cash Equivalents: $4,435,031 (2%)
- Investments: $180,810,936 (59%)
- Receivables: $10,133,138 (3%)
- Net Property, Plant and Equipment: $108,650,534 (35%)
- Other: $3,854,911 (1%)

Total Assets: $307,884,550
Assets increased by $14.7 million or 5.0%.

Increase in Assets attributed primarily to increased value of property, plant and equipment related to the completion of Filippi Academic Hall.
Liabilities total $102.4 million as of June 30, 2008.

Liabilities comprised of Long-Term Debt (73%), Accounts Payable (7%), Deferred Revenue (5%), Post-Retirement Benefits Payable (5%), Asset Retirement Obligations (2%), Interest Rate Swap (4%), and Other (4%).
BALANCE SHEET: LIABILITIES
Fiscal Year Ended June 30, 2008
$102,406,290

- Deferred Revenue: $5,210,081 (5%)
- Other: $3,611,716 (4%)
- Interest Rate Swap: $3,609,037 (4%)
- Accounts Payable: $7,373,828 (7%)
- Asset Retirement Obligations: $2,448,360 (2%)
- Post-Retirement Benefits Payable: $5,095,382 (5%)
- Long-Term Debt: $75,057,886 (73%)
Liabilities increased by $33.2 million or 47.9%.

Increase in Liabilities attributed primarily to increase in College’s long-term debt and unrealized loss in market value of swap agreement.
Net Assets (Equity) total $205.4 million as of June 30, 2008.

Net Assets comprised of Permanently Restricted Net Assets (40%), Unrestricted Net Assets (53%) and Temporarily Restricted Net Assets (7%).
BALANCE SHEET: NET ASSETS
Fiscal Year Ended June 30, 2008
$205,478,260

- Permanently Restricted $83,342,698 (40%)
- Temporarily Restricted $14,110,752 (7%)
- Unrestricted $108,024,810 (53%)
BALANCE SHEET: NET ASSETS
Fiscal Year Ended June 30, 2008
Continued

- Net Assets decreased by $18.5 million or 8.2%.
- Decrease in Net Assets attributed primarily to decline in market value of endowment investments and to unrealized loss in market value of swap agreement.
STATEMENT OF ACTIVITIES:
Fiscal Year Ended June 30, 2008

- Statement of Activities (Income Statement) presents financial activity during the fiscal year.

- Statement of Activities also reconciles beginning and end-of-year Net Asset positions.
Unrestricted Operating Revenues totaled $98.2 million for the Fiscal Year Ended June 30, 2008.

Unrestricted Operating Revenues comprised of Net Tuition and Fees (72%), Auxiliary Enterprises (16%), Endowment and Investment Income (6%), Contributions (2%), Net Assets Released from Restrictions (2%), and Other (2%).
STATEMENT OF ACTIVITIES:
UNRESTRICTED OPERATING REVENUES
Fiscal Year Ended June 30, 2008
$98,274,079
Unrestricted Operating Revenues increased by $4.7 million or 5.0% from prior year’s total.

Increase in Unrestricted Operating Revenues attributed primarily to increased net tuition and fees and to increased endowment income.
STATEMENT OF ACTIVITIES:  
UNRESTRICTED OPERATING EXPENSES  
Fiscal Year Ended June 30, 2008

- Unrestricted Operating Expenses totaled $97.8 million for the Fiscal Year Ended June 30, 2008.

- Unrestricted Operating Expenses comprised of Instruction (37%), Academic Support (8%), Student Services (13%), Institutional Support (20%), Operations and Maintenance of Plant (7%), Auxiliary Enterprises (7%), Interest Expense (5%), and Depreciation Expense (3%).
### STATEMENT OF ACTIVITIES:
**UNRESTRICTED OPERATING EXPENSES**  
Fiscal Year Ended  June 30, 2008  
$97,837,713

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Percentage</th>
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<tr>
<td>Instruction</td>
<td>$36,097,153</td>
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<td>Student Services</td>
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<td>Operations and Maintenance of Plant</td>
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<td>Auxiliary Enterprises</td>
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<td>Interest Expense</td>
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<td>Depreciation Expense</td>
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<tr>
<td>Institutional Support</td>
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<tr>
<td>Academic Support</td>
<td>$7,383,755</td>
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**Total**: $97,837,713
Unrestricted Operating Expenses increased by $5.7 million or 6.1%.

Increase in Unrestricted Operating Expenses attributed primarily to a planned increase in interest expenses related to restructuring of long-term debt and to an unplanned increase in interest expense related to the collapse of the auction rate securities market.
STATEMENT OF ACTIVITIES: UNRESTRICTED OPERATING RESULTS 
Fiscal Year Ended June 30, 2008

- Increase in Net Assets (Net Income) from Unrestricted Operating Activities totaled $0.4 million for the Fiscal Year Ended June 30, 2008.

- Increase in Net Assets smaller than previous year and attributed primarily to unplanned increase in interest expense on long-term debt.
STATEMENT OF ACTIVITIES: RESULTS FROM NON-OPERATING ACTIVITIES

- Decrease in Net Assets from all Non-Operating Activities totaled $18.4 million for the Fiscal Year Ended June 30, 2008.

- Non-Operating Activities include Net Contributions, Net Gains/(Loss) on Endowments and Other Investments, Unrealized Gain/(Loss) on Interest Rate Swaps, Actuarial Adjustments, Net Assets Released from Restrictions, and Other.
Decrease in Net Assets from Non-Operating Activities attributed primarily to decline in market value of endowment investments and to unrealized loss in market value of swap agreement.
STATEMENT OF ACTIVITIES:
Net Assets, End of Year

- Net Assets, End of Year, totaled $205.4 million.
- Decrease in Net Assets, End of Year, attributed to decline in market value of endowment investments and to unrealized loss on market value of swap agreement.
STATEMENT OF CASH FLOWS
Fiscal Year Ended June 30, 2008

- Statement of Cash Flows presents cash-related activities during fiscal year and is segmented into operating, investing, and financing activities.

- Statement of Cash Flows reconciles beginning and end-of-year cash and cash equivalents balances on Balance Sheet.

- Statement of Cash Flows also presents amount of cash paid for interest expense.
Net decrease in Cash and Cash Equivalents totaled $1.4 million and attributed to decreased cash flow from operations.

Cash paid for Interest Expense increased by $1.8 million and is attributed to planned increase in interest expense related to planned and unplanned increase in interest expense on long-term debt.
NOTES TO FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2008

Notes to Financial Statements provide information about:

• Nature of the College.
• Basis of presentation of financial statements.
• Significant accounting policies.
• Explanatory information about specific items in financial statements.
NOTES TO FINANCIAL STATEMENTS
CONTINUED

Significant changes in Notes include:

- Information regarding restructuring of the College’s long-term debt.
- Disclosure of subsequent event regarding the conversion of the College’s long-term debt from auction rate securities to variable rate demand bonds in July 2008.
Institute formal approval processes for entry of new vendors.

Prepare for new UPMIFA standards for endowment accounting.
OTHER FINANCIAL HIGHLIGHTS

- Filippi Academic Hall opened and fully funded by donors ($23.4 million).

- Long-term debt restructured and increased by $25.1 million for renovation of food service and residence hall facilities.

- Implementation of Emeriti Program to build savings for health care in retirement and to provide access to affordable health insurance coverage in retirement.
Impacted negatively by macroeconomic factors resulting in decrease in net assets.

Investing in new and renovated campus facilities and in employees and retirees.

Pursuing plans for comprehensive campaign.
CURRENT YEAR OPERATING BUDGET F.Y. 2008-2009

- Original budget adopted by the Board of Trustees January 2008.
- Revised budget formulated September 2008.
- Additional revisions expected through June 30, 2009.
Original budget revenues total $99.6 million.

Revised budget revenues total $101.0 million.

$1.4 million increase in budget revenues primarily attributed to increases in revenues from graduate programs.
OPERATING BUDGET REVENUE
Fiscal Year 2008-2009
$100,991,000

Net TUG
Tuition and Fees
$54,124,000
54%

Adult and Graduate Program Revenue
$19,726,000
20%

Contributions (Gifts)
$2,252,000
2%

Endowment and Investment Income
$7,179,000
7%

Auxiliary Enterprises
$16,418,000
16%

Other
$1,292,000
1%
Original budget expenditures total $99.6 million.

Revised budget expenditures total $101.7 million.

$2.1 million increase in expenditures attributed primarily to an increase in graduate programs expenses of $1.4 million and increase in debt service expense of $0.7 million.

Increase in expenditures result in net loss of $0.7 million.
OPERATING BUDGET FUNCTIONAL EXPENSE PROJECTIONS
Fiscal Year 2008-2009
$101,679,000

- Administration: $19,955,000 (19%)
- Student Services: $14,012,000 (14%)
- Instruction: $39,307,000 (39%)
- Academic Support: $7,353,000 (7%)
- Operation and Maintenance of Plant: $7,580,000 (7%)
- Auxiliary Enterprises: $7,943,000 (8%)
- Debt Service: $4,015,000 (4%)
- Other: $764,000 (1%)
- Depreciation Expense: $750,000 (1%)
Impact of Credit Crisis

- Collapse of auction rate securities market:
  - Additional interest expense incurred.
  - Conversion of auction rate securities increased fixed costs of debt.

- Freeze of short-term lending market:
  - Additional interest expense incurred.
  - Closing of Common Fund’s Short Term Fund ($2.1 million initially frozen).
Impact of Credit Crisis

- Collapse of AIG:
  - No college insurance coverage provided by AIG.

- Twelve-month decline in most financial markets through September 30, 2008:
  - Endowment Pool estimated performance of -17.76
  - S&P 500 -21.97
  - MSCI EAFE -30.31
  - DJ Wilshire Real Estate -12.86
  - Lehman Aggregate 3.66
Impact of Credit Crisis

Impacts on students and student related receivables:

- Students demonstrating more need and awarded more aid.
- Increased undergraduate enrollment did not result in increased student revenues (i.e. net tuition, room, board, bookstore).
- Higher than usual number of undergraduate students with unpaid account balances at September 30, 2008.
Impact of Credit Crisis

Summary and conclusions:

- Falling value of endowment investments.
- Falling interest rates on short-term investments and liquidity concerns.
- Rising interest rates on long-term debt.
Impact of Credit Crisis

Summary and conclusions:

- Increased financial aid expenditures.
- Decreased student revenues.
- Increased utility costs.
- Increased travel costs.
Impact of Credit Crisis

Summary and conclusions:

- Banking system and capital markets seriously disrupted.
- Need to review and adjust capital and operating budget assumptions.
Capital Budget Adjustments

- Complete all facility projects currently underway.
- Review timing of planned facility projects.
Current Budget Adjustments

- $1.7 million projected initial impact on FY 2008-2009 Operating Budget:
  - $0.7 million increase in fixed costs of debt service.
  - $1.0 million for possible increases in variable costs of debt service and possible decreases in net student revenue.
$1.7 million savings target for FY 2008-2009 operating budget:

- $1.4 million savings representing 2% decreases in discretionary spending.

Note: FY 2007-2008 operating budget generated $1.0 million in staff salary savings and $1.3 million in non-salary carry-forward savings.
Current Budget Adjustments

- $1.7 million savings target for FY 2008-2009 operating budget (continued):
  - $0.3 million savings representing reduction in size of increase for employer contribution to health benefits from 9% to 7% for Calendar Year 2009.
    Note: Blended health benefits renewal rate of 4.6% for Calendar Year 2009
  - Monthly monitoring of FY 2008-2009 operating revenues and expenses.
Current Budget Adjustments

- Hiring cap imposed by Board of Trustees through January 31, 2009:
  - No hiring through January 31, 2009.
  - Hiring cap to be reviewed by Board of Trustees on January 23, 2009.
Future Budget Adjustments

President and Cabinet, with input from campus community, developing adjustments to existing assumptions and projections for future operating budgets:

- Informed by strategic priorities.
- Based on scenario modeling with input from Budget Committee.
- Presented to Board of Trustees for approval in January 2009.
FINANCIAL POSITION OF SAINT MARY’S COLLEGE

- Financial Position Presentation on SMCnet.
FINANCIAL POSITION OF SAINT MARY’S COLLEGE

Discussion